

4 March 2022

KSB

*Mixed-bag performance, attractive valuations; retaining a Buy*Rating: **Buy**

Target Price: Rs.1,352

Share Price: Rs.1,055

We believe KSB is well placed to benefit from strong opportunities in FGD, nuclear power, O&G and exports. Such prospects would also boost its after-market and services (15% of its sales) due to increased installed base and expansion in dealer network and service centres. Q4CY21 results were a mixed bag with revenue ahead of estimates due to strong execution. However, increased raw material cost impacted the profitability. CY21 order inflows were of Rs15bn (Rs13bn in CY20) and the management targets Rs25bn order intake in CY24. The favourable demand environment, execution abilities and attractive valuations keep us upbeat. However, due to raw material volatility, we have tweaked our estimates, arriving at a target price of Rs1,352, 25x CY23e P/E. We retain a Buy.

Performance, a mixed bag. Q4 revenue grew 20% y/y to Rs4.4bn. Pump revenue was up 25% y/y, while valve revenue slipped 1.6% y/y. Higher raw material prices cut into profitability, with the EBITDA margin contracting 767bps y/y to 12.7% (AR: 14.6%). Cost controls enabled lower y/y other expenses (as % of sales). Healthy demand and a better CY21 leads us to slightly raise our revenue estimates. On inflation squeezing profitability, we lower our CY22e/CY23e EBITDA by 8.5%/8.4%.

Good prospects in FGD, nuclear, services. With capacity built up ahead of competition and pre-qualification in place, we expect good opportunities in FGD and nuclear. NPCIL announced 12 reactors (each of 700MW), a Rs5bn opportunity each, by 2031. FGD and the Atma Nirbhar vision are perceived as large opportunities. The company is eyeing increased services (25-30% revenue targeted) and export business in coming years. Agriculture, "smart" cities, wastewater management and O&G also throw up healthy prospects.

Valuations: With tweaks to our estimates, we expect 13%/12% revenue/PAT CAGRs over CY21-23e. The stock trades at an attractive 23x/20x CY22e/CY23e P/E. We maintain our Buy rating with a lower target price of Rs1,352 (earlier Rs1,494), 25x CY23e P/E. **Risk:** Lower-than-expected order awarding.

| Key financials (YE Dec) | CY19 | CY20 | CY21 | CY22e | CY23e |
|-------------------------|--------|--------|--------|--------|--------|
| Sales (Rs m) | 12,939 | 12,081 | 14,973 | 16,355 | 19,199 |
| Net profit (Rs m) | 918 | 938 | 1,494 | 1,577 | 1,882 |
| EPS (Rs) | 26.4 | 27.0 | 42.9 | 45.3 | 54.1 |
| PE (x) | 40.0 | 39.1 | 24.6 | 23.3 | 19.5 |
| EV / EBITDA (x) | 22.7 | 19.8 | 15.8 | 14.8 | 12.2 |
| PBV (x) | 4.4 | 4.1 | 3.6 | 3.2 | 2.9 |
| RoE (%) | 11.6 | 10.9 | 15.7 | 14.7 | 15.7 |
| RoCE (%) | 14.4 | 16.1 | 19.4 | 18.7 | 20.1 |
| Dividend yield (%) | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 |
| Net debt / equity (x) | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 |

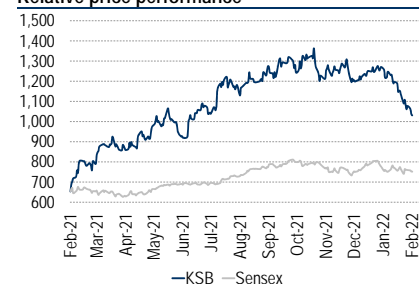
Source: Company, Anand Rathi Research

| Key data | KSB IN / KSBP.BO |
|--------------------|--------------------|
| 52-week high / low | Rs.1411 / 738 |
| Sensex / Nifty | 55103 / 16498 |
| 3-m average volume | \$0.5m |
| Market cap | Rs.37bn / \$483.8m |
| Shares outstanding | 35m |

| Shareholding pattern (%) | Dec'21 | Sep'21 | Jun'21 |
|--------------------------|--------|--------|--------|
| Promoters | 66.7 | 66.7 | 66.7 |
| - of which, Pledged | - | - | - |
| Free float | 33.3 | 33.3 | 33.3 |
| - Foreign institutions | 2.9 | 2.8 | 2.6 |
| - Domestic institutions | 11.1 | 11.6 | 11.6 |
| - Public | 19.3 | 18.9 | 19.2 |

| Estimates revision (%) | CY22 | CY23 |
|------------------------|------|------|
| Sales | 2.2 | 2.9 |
| EBITDA | -8.5 | -8.4 |
| EPS | -9.7 | -9.6 |

Relative price performance



Source: Bloomberg

Ashwani Sharma
Research AnalystRahul Jain
Research Associate

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

| Year-end: Dec | CY19 | CY20 | CY21 | CY22e | CY23e |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net revenues (Rs m) | 12,939 | 12,081 | 14,973 | 16,355 | 19,199 |
| <i>Growth (%)</i> | <i>18.4</i> | <i>-6.6</i> | <i>23.9</i> | <i>9.2</i> | <i>17.4</i> |
| Material cost | 6,983 | 6,206 | 7,924 | 8,636 | 10,137 |
| Employee & Other expense | 4,438 | 4,197 | 4,955 | 5,515 | 6,455 |
| EBITDA | 1,518 | 1,678 | 2,094 | 2,205 | 2,607 |
| <i>EBITDA margins (%)</i> | <i>11.7</i> | <i>13.9</i> | <i>14.0</i> | <i>13.5</i> | <i>13.6</i> |
| Depreciation | 457 | 418 | 435 | 441 | 484 |
| Other income | 216 | 291 | 337 | 339 | 395 |
| Interest expenses | 53 | 34 | 50 | 34 | 36 |
| PBT | 1,224 | 1,517 | 1,946 | 2,069 | 2,482 |
| <i>Effective tax rate (%)</i> | <i>29.5</i> | <i>41.7</i> | <i>26.5</i> | <i>27.0</i> | <i>27.0</i> |
| + Associates / (Minorities) | 54 | 53 | 64 | 67 | 71 |
| Net income | 1,007 | 938 | 1,494 | 1,577 | 1,882 |
| Adjusted income | 918 | 938 | 1,494 | 1,577 | 1,882 |
| WANS | 35 | 35 | 35 | 35 | 35 |
| FDEPS (Rs / sh) | 26.4 | 27.0 | 42.9 | 45.3 | 54.1 |
| <i>EPS growth (%)</i> | <i>28.1</i> | <i>2.2</i> | <i>59.3</i> | <i>5.6</i> | <i>19.3</i> |

Fig 3 – Cash-flow statement (Rs m)

| Year-end: Dec | CY19 | CY20 | CY21 | CY22e | CY23e |
|--------------------------------|-------|-------|-------|-------|-------|
| PBT | 1,351 | 1,517 | 1,946 | 2,069 | 2,482 |
| + Non-cash items | 294 | 161 | 148 | 136 | 125 |
| Oper. prof. before WC | 1,645 | 1,678 | 2,094 | 2,205 | 2,607 |
| - Incr. / (decr.) in WC | 688 | 341 | -678 | -509 | -280 |
| Others incl. taxes | -348 | -625 | -558 | -559 | -670 |
| Operating cash-flow | 1,985 | 1,394 | 858 | 1,137 | 1,657 |
| - Capex (tang. + intang.) | -626 | -452 | -497 | -577 | -880 |
| Free cash-flow | 1,360 | 942 | 361 | 560 | 777 |
| Acquisitions | - | - | - | - | - |
| - Div. (incl. buyback & taxes) | 323 | 296 | 296 | 312 | 373 |
| + Equity raised | 26 | -24 | 4 | -67 | -71 |
| + Debt raised | 166 | - | -600 | - | - |
| - Fin investments | 46 | 18 | 35 | 10 | 20 |
| - Misc. (CFI + CFF) | -332 | -529 | -78 | -352 | -430 |
| Net cash-flow | 1,514 | 1,133 | -488 | 522 | 743 |

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

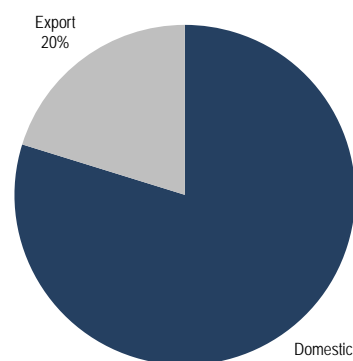
| Year-end: Dec | CY19 | CY20 | CY21 | CY22e | CY23e |
|---------------------------|--------------|--------------|---------------|---------------|---------------|
| Share capital | 348 | 348 | 348 | 348 | 348 |
| Net worth | 8,288 | 8,906 | 10,108 | 11,306 | 12,745 |
| Debt | 600 | 600 | - | - | - |
| Minority interest | - | - | - | - | - |
| DTL / (Assets) | -16 | -9 | -51 | -51 | -51 |
| Capital employed | 8,872 | 9,497 | 10,057 | 11,255 | 12,694 |
| Net tangible assets | 3,057 | 3,171 | 3,093 | 3,330 | 3,725 |
| Net intangible assets | - | 14 | 13 | 13 | 13 |
| Goodwill | - | - | - | - | - |
| CWIP (tang. & intang.) | 345 | 251 | 392 | 292 | 292 |
| Investments (strategic) | - | - | - | - | - |
| Investments (financial) | 644 | 662 | 697 | 707 | 727 |
| Current asset (excl cash) | 7,396 | 7,261 | 8,302 | 9,867 | 11,331 |
| Cash | 2,901 | 4,034 | 3,546 | 4,068 | 4,811 |
| Current liabilities | 5,471 | 5,896 | 5,986 | 7,022 | 8,205 |
| Working capital | 1,925 | 1,365 | 2,316 | 2,845 | 3,125 |
| Capital deployed | 8,872 | 9,497 | 10,057 | 11,255 | 12,694 |
| Contingent liabilities | - | - | - | - | - |

Fig 4 – Ratio analysis

| Year-end: Dec | CY19 | CY20 | CY21 | CY22e | CY23e |
|---------------------------------|-------|-------|------|-------|-------|
| P/E (x) | 40.0 | 39.1 | 24.6 | 23.3 | 19.5 |
| EV / EBITDA (x) | 22.7 | 19.8 | 15.8 | 14.8 | 12.2 |
| EV / Sales (x) | 2.7 | 2.8 | 2.2 | 2.0 | 1.7 |
| P/B (x) | 4.4 | 4.1 | 3.6 | 3.2 | 2.9 |
| RoE (%) | 11.6 | 10.9 | 15.7 | 14.7 | 15.7 |
| RoCE (%) - after tax | 14.4 | 16.1 | 19.4 | 18.7 | 20.1 |
| RoIC (%) - after tax | 14.8 | 16.4 | 25.1 | 22.8 | 24.9 |
| DPS (Rs / sh) | 8.0 | 8.5 | 8.5 | 9.0 | 10.7 |
| Dividend yield (%) | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 |
| Dividend payout (%) - incl. DDT | 32.1 | 31.5 | 19.8 | 19.8 | 19.8 |
| Net debt / equity (x) | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 |
| Receivables (days) | 84 | 86 | 71 | 85 | 84 |
| Inventory (days) | 92 | 109 | 103 | 110 | 110 |
| Payables (days) | 77 | 92 | 79 | 93 | 94 |
| CFO : PAT % | 216.4 | 148.6 | 57.4 | 72.1 | 88.0 |

Source: Company, Anand Rathi Research

Fig 6 – Revenue, by region (CY21)



Source: Company

Result Highlights

Fig 7 – Quarterly and annual trends

| (Rs m) | Q4 CY21 | Q4 CY20 | Y/Y (%) | Q3 CY21 | Q/Q (%) | CY21 | CY20 | Y/Y (%) |
|----------------------|---------|---------|---------|---------|---------|--------|--------|---------|
| Net revenue | 4,446 | 3,699 | 20.2 | 3,681 | 20.8 | 14,973 | 12,081 | 23.9 |
| EBITDA | 564 | 753 | (25.1) | 517 | 9.1 | 2,094 | 1,678 | 24.8 |
| EBITDA margins (%) | 12.7 | 20.4 | -767bps | 14.0 | -136bps | 14.0 | 13.9 | 10bps |
| Other income | 82 | 28 | 192.9 | 99 | (17.2) | 337 | 291 | 15.8 |
| Depreciation | 110 | 117 | (6.0) | 109 | 0.9 | 435 | 418 | 4.1 |
| Interest | 19 | 7 | 171.4 | 12 | 58.3 | 50 | 34 | 47.1 |
| Share of JV / Assoc. | 20 | 24 | (16.7) | 13 | 53.8 | 64 | 53 | 20.8 |
| Profit before tax | - | - | | - | | - | - | |
| Tax | 537 | 681 | (21.1) | 508 | 6 | 2,010 | 1,570 | 28.0 |
| PAT | 143 | 361 | (60.4) | 119 | 20.2 | 516 | 632 | (18.4) |
| Net margins (%) | 3.94 | 3.20 | 23.1 | 3.89 | 1.3 | 1,494 | 938 | 59.3 |

Source: Company

Fig 8 – Cost analysis

| (Rs m) | Q1 CY19 | Q2 CY19 | Q3 CY19 | Q4 CY19 | Q1 CY20 | Q2 CY20 | Q3 CY20 | Q4 CY20 | Q1 CY21 | Q2 CY21 | Q3 CY21 | Q4 CY21 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales | 2893 | 3018 | 3658 | 3370 | 2570 | 2189 | 3623 | 3699 | 3816 | 3030 | 3681 | 4446 |
| Raw material costs | 1552 | 1608 | 2082 | 1741 | 1308 | 1253 | 1942 | 1703 | 1891 | 1569 | 1969 | 2495 |
| Employee costs | 417 | 455 | 439 | 468 | 475 | 450 | 477 | 460 | 520 | 503 | 534 | 597 |
| Other expenses | 606 | 634 | 750 | 684 | 607 | 350 | 595 | 783 | 785 | 565 | 661 | 790 |
| % of sales | | | | | | | | | | | | |
| Raw material costs | 53.6 | 53.3 | 56.9 | 51.7 | 50.9 | 57.2 | 53.6 | 46.0 | 49.6 | 51.8 | 53.5 | 56.1 |
| Employee costs | 14.4 | 15.1 | 12.0 | 13.9 | 18.5 | 20.6 | 13.2 | 12.4 | 13.6 | 16.6 | 14.5 | 13.4 |
| Other expenses | 20.9 | 21.0 | 20.5 | 20.3 | 23.6 | 16.0 | 16.4 | 21.2 | 20.6 | 18.6 | 18.0 | 17.8 |
| EBIDTA margins | 11.0 | 10.6 | 10.6 | 14.2 | 7.0 | 6.2 | 16.8 | 20.4 | 16.2 | 13.0 | 14.0 | 12.7 |

Source: Company

Conference-call highlights

KSB's management commentary was largely around

- 1) Increasing service (from 15% in CY21 to 25-30% in the next five years) led by greater installed base and the exports business.
- 2) Strengthening its product basket and dealer network,
- 3) Focus on cost controls through various measures like digitisation and solar power, and
- 4) Delays in the nuclear power project.

For CY24, it aims at orders of Rs25bn, sales of Rs22bn and a 13% EBITDA margin.

Standard pumps

Revenue from standard pumps climbed to 48% in CY21, from CY20's 41%, driven primarily by the higher projects business seeing greater demand from agriculture, industry, water and waste water and buildings. The upgrading of its pumps and greater localisation is intensifying competitiveness in the Indian market.

The higher revenue was also supported by the strengthened sales team and focus on expanding the dealer network (adding 100 dealers yearly). The company intends to maintain the contribution for the coming years. Besides, it launched gamma pumps and seeks to cater to the pulp-paper industry from where demand is increasing. 60-70% of its business comes from its current dealer/ distributor network, the rest from OEMs, direct sales and smaller projects.

FGD

In FGD, the company bagged orders of Rs295m, from NTPC, DVC Mejia and NTPL. In CY21, it supplied 170 pumps. Apart from robust demand, the company also eyes significant spares and service business for the rotating parts that will be replaced in the next 2-3 years. It expects good spares and service revenue in FGD from FY24, driven by larger installed base.

Nuclear Power

NPCIL bulk tender of Rs15bn, consisting of 24 pumps and 30 motors, at three sites with two units each and four pumps per unit. Details of the first site of Rs5bn should be finalized by Mar/Apr'22; the other two sites will be re-tendered, expected to be finalized by end-CY22 or early CY23. The tendering process for the last 16 pumps might extend up to CY24 or beyond. We believe the long-term opportunity in nuclear power (ie, from NPCIL) is robust. KSB will be among the biggest beneficiaries due to its localization.

Gamma pumps

In CY21 KSB developed gamma pumps, used in industry and water and waste water treatment. It already has orders for ~340 pumps and looks at 500-600 pump orders in CY22. The market is ~10,000-15,000 pumps a year. In the next 2-3 years, the company looks at annual sales of 1,500-2,000 pumps. In CY21, Rs10m revenue came from selling 325 gamma pumps. Also, it received the IP from its parent for gamma pumps as an exception, as the market is very vast.

Focus on rising exports, services & spares

Exports

Export revenue in CY21 shot up 44% y/y to Rs2.9bn; its proportion to revenue rose from 17.1% in CY20 to 20.2% in CY21. Its exports constitute direct sales (30%) and orders through its parent (70%). Most of its exports are through its parent except for its business in Nepal and Bangladesh. New products such as gamma and solar pumps provide vast opportunities for the group's business internationally.

Spares and Services

Revenue of the spares & services business (SupremeServ) in CY21 grew 12% y/y to Rs1.7bn; its proportion to total revenue was unchanged at 15%. The company intends to increase this to 25-30% in the next five years, enabled by a wider distribution and service network, aiming to deliver spare parts (standard products) in 48 hours. The company has 200+ authorized service centres across India. These provide services concerning standard products (like submersible, industrial and other standard pumps) in various regions and buy spares from KSB. Hence, the focus will be on improving connectivity for faster deliveries of spares.

For engineered products, the company conducts business directly. It has on-ground engineering and service teams who provide services and spares. It is also targeting companies to service old pumps installed by the competition, mainly international pump manufacturers. Besides, it has opened a new service station in Baddi, HP, helping it serve customers in the northern region.

Strong order intake in CY21

Despite the pandemic, orders were a strong Rs15bn in CY21, vs Rs13.3bn in CY20. In Q4 CY21m the company secured orders of Rs295m for 22 pumps in FGD from NTPC, DVC Mejia and NTPL. It is also seeing good success in solar pumps. It bagged domestic and export orders of Rs82.7m for 328 gamma pumps in CY21. Management is seeing greater traction from O&G with numerous enquiries and projects in the pipeline. The business, however, has been volatile. KSB has done good business in CY19, but did not have much inflows in CY21. It has bagged good orders in the first two months of CY22. For O&G, it is in the process of developing various products.

Price hikes

Against the 20-25% rise in raw material prices, the company hike prices 12-15%. Management expects margins to be under pressure as cost benefits due to Covid-19 will be non-existent as travel has re-started. Besides, higher raw material prices and supply-chain disruptions continue to bite. It is mitigating this risk by reducing power costs through installing solar power, digitising processes and eyeing more business from services (a high-margin segment).

Other key highlights

- The top-10 customers accounted for 26.3% of domestic revenue.
- For agriculture, the company is seeking to increase product efficiency and quality, gaining a higher rating for its pumps i.e. 4- and 5-Star. This will lead to greater acceptability in this segment.

Fig 9 – Top-ten customers

| Customer | Segment | Value (Rs m) | % of domestic Order inflow |
|--------------------------------|-----------------------------------|--------------|----------------------------|
| Bharat Heavy Electricals. | Energy | 1,045 | 7.9 |
| The Thermax Group | Energy | 425 | 3.2 |
| Rushabh Enterprises | General industry | 322 | 2.4 |
| ISGEC Heavy Engineering. | Energy | 311 | 2.3 |
| Patil Engineering | General industry | 304 | 2.3 |
| RK Engineers Sales. | Water | 265 | 2.0 |
| Larsen & Toubro | Energy, buildings, petrochemicals | 253 | 1.9 |
| Pooja Engineering Co. | Petro-chemicals, general industry | 240 | 1.8 |
| NTPC | Energy | 169 | 1.3 |
| Thyssenkrupp Industries, India | Energy, petro-chemicals | 160 | 1.2 |
| Total | | 3494 | 26.3 |

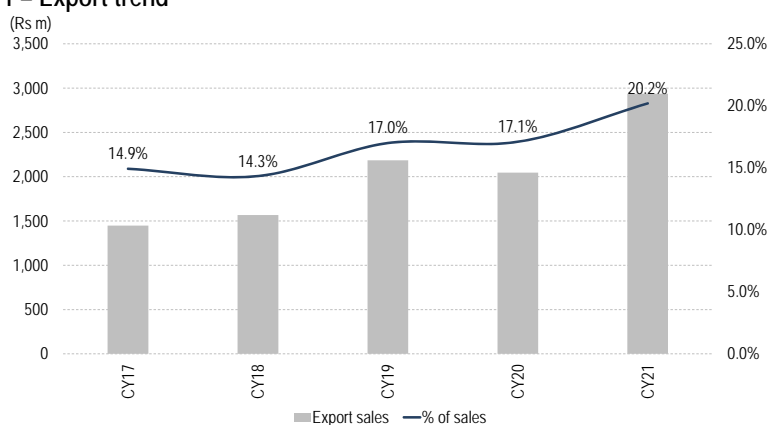
Source: Company

Fig 10 – Status, major investments of 2022

| Investments | Amount (Rs m) | Remarks |
|---|---------------|--|
| Sinnar shed | 232 | The Sinnar shed is nearing completion. Small items like compressors, etc. of ₹0.11m will be installed in CY22 |
| Digitization - RPA and various projects | 32 | SAP warehouse management project implementation started. Mobile warehouse management digitisation in 2022. RPA -Pilot phase completed. |
| Gamma development project | 9 | Completed |
| Central spares warehouse expansion | 9 | Completed |
| Ground floor office renovation - CBE | 34 | Admin office completed, production office renovation is ongoing |
| Patterns – In-house and Sub-contract | 57 | Various patterns including in-house and sub-contract |
| Other regular investments | 182 | ITS hardware and software: ₹24m, vehicles: ₹3m, Baddi service station: ₹2.8m, evaporative cooling system Sinnar: ₹7m, Etabloc pump casing development: ₹2.8m |
| Total investments | 531 | |

Source: Company

Fig 11 – Export trend

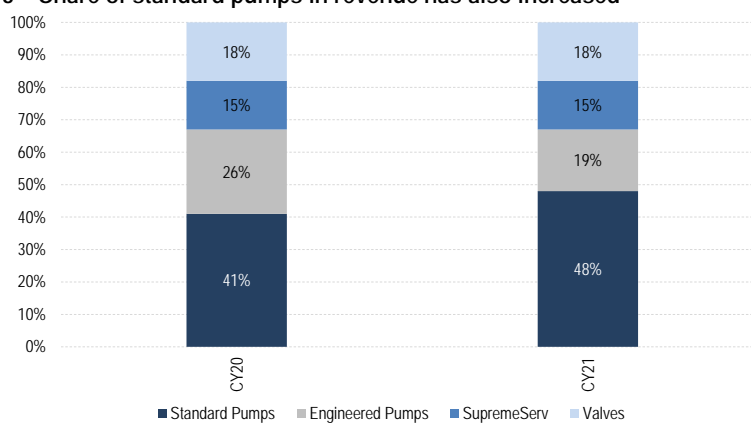


Source: Company

Fig 12 – Order intake: Share of standard pumps has been increasing, %

| | CY19 | CY20 | CY21 |
|----------------------------|------------|------------|------------|
| Agriculture | 13 | 14 | 15 |
| Solar | 0.2 | 0.2 | 0.7 |
| Buildings | 10 | 10 | 12 |
| Water and Waste water | 1 | 2 | 2 |
| Standard industry | 16 | 17 | 20 |
| Standard products | 40 | 43 | 48 |
| Petro-chemicals | 16 | 10 | 7 |
| Energy + Special projects | 16 | 15 | 16 |
| Engineered products | 31 | 25 | 23 |
| SupremeServ | 13 | 16 | 12 |
| Valves | 15 | 15 | 16 |
| Total | 100 | 100 | 100 |

Source: Company

Fig 13 – Share of standard pumps in revenue has also increased

Source: Company

Valuation

Expectations of a pick-up in awarding orders, its strong parent backing and execution ability augur well for the company. We expect 13%/12% growth in revenue/PAT over CY21-23. 13.5%/13.6% EBITDA margins are expected in CY22/CY23.

The stock trades at an attractive 23x/20x CY23e earnings. Strong operations, execution capabilities and attractive valuations enable us to remain upbeat on it. Valuing it at 25x CY23e earnings, we arrive at a revised target price of Rs1,352 (earlier Rs1,494). We retain a Buy.

Fig 14 – Change in estimates

| (Rs m) | Old | | New | | % Change | |
|----------|--------|--------|--------|--------|----------|------|
| | CY22e | CY23e | CY22e | CY23e | CY22 | CY23 |
| Sales | 16,003 | 18,654 | 16,355 | 19,199 | 2.2 | 2.9 |
| EBITDA | 2,411 | 2,846 | 2,205 | 2,607 | -8.5 | -8.4 |
| EPS (Rs) | 50.2 | 59.8 | 45.3 | 54.1 | -9.7 | -9.6 |

Source: Company, Anand Rathi Research

Fig 15 – One-year-forward PE



Source: Bloomberg

Key risk

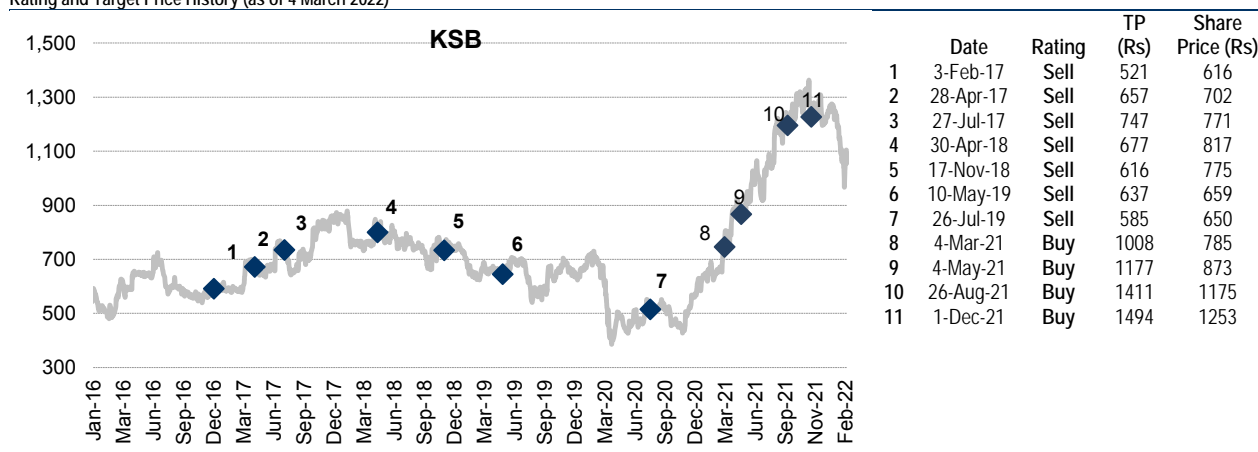
- Delay in booking orders caused by postponements by the NPCIL.
- Deferred capex on higher-than-anticipated costs due to the rise in commodity prices.
- Competition can eat into its market share in agricultural and residential pumps.
- Unable to pass on increases in commodity prices.

Appendix

Analyst Certification

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Important Disclosures on subject companies Rating and Target Price History (as of 4 March 2022)



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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

| | Buy | Hold | Sell |
|---------------------------|------|-------|------|
| Large Caps (>US\$1bn) | >15% | 5-15% | <5% |
| Mid/Small Caps (<US\$1bn) | >25% | 5-25% | <5% |

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